



Fiscal 2015 Financial Results And SGS2020 Rolling Plan

May 11, 2016

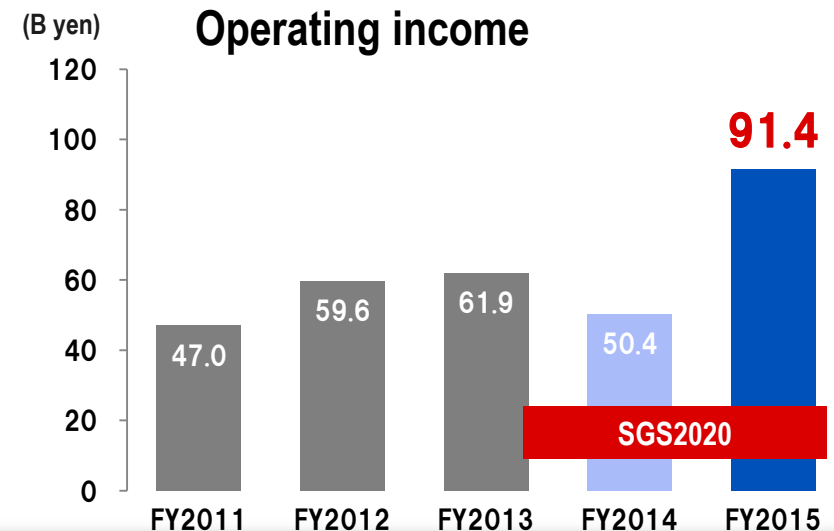
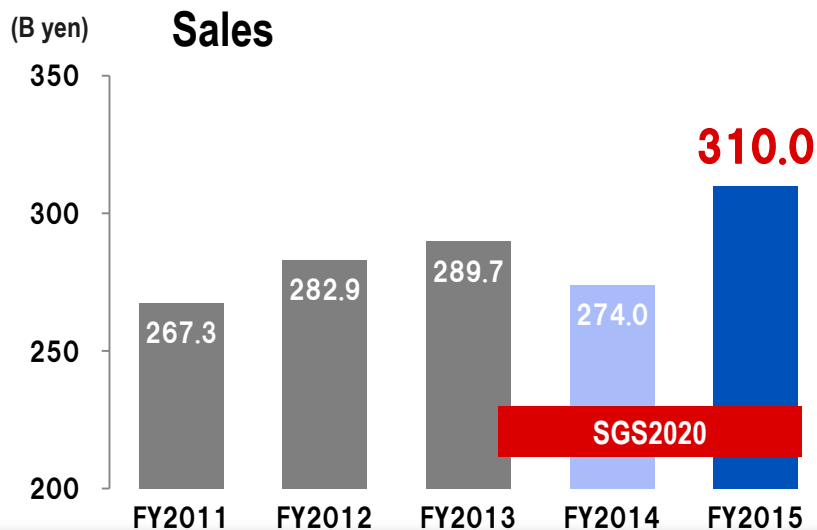


Overview of FY2015 Financial Results

Summary of FY2015 Results



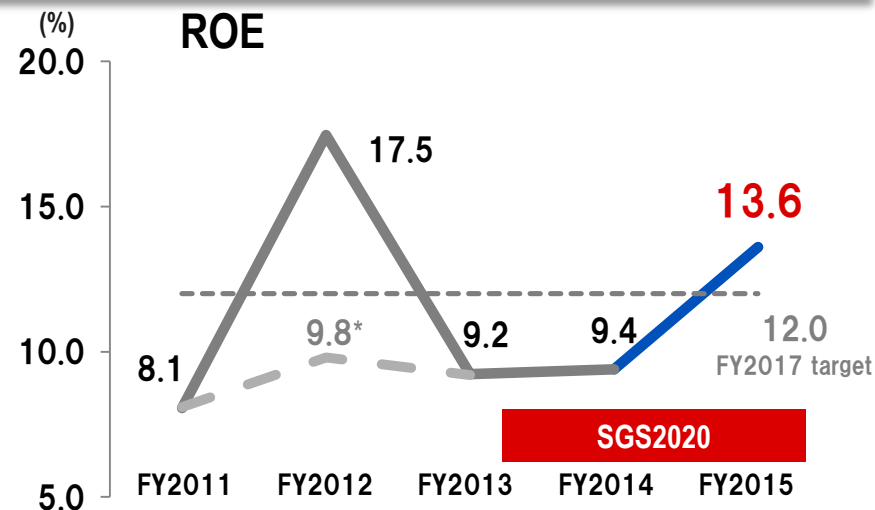
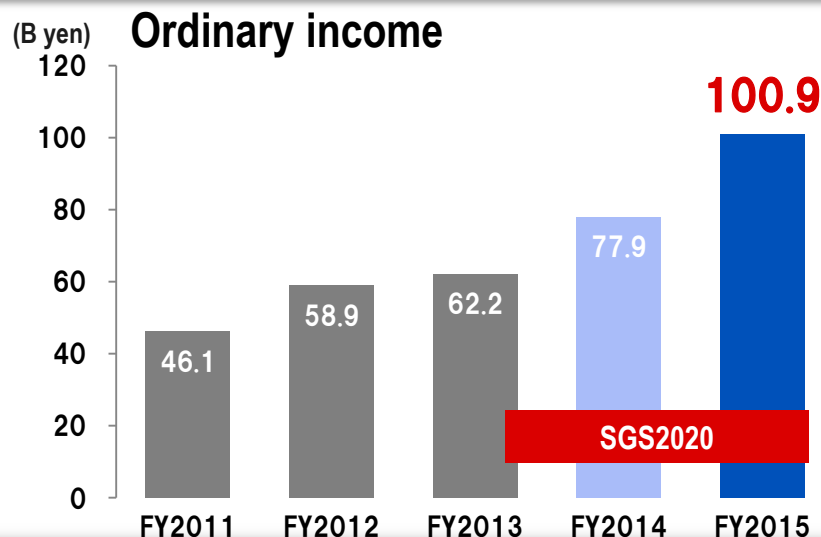
- ◆ Sales: **310.0 B yen**, higher than the target
- ◆ Operating income: **91.4 B yen**, higher than the highest level previously achieved (in FY2013)



Summary of FY2015 Results



- ◆ Ordinary income: **100.9 B yen**, record-high levels for four consecutive years
- ◆ ROE: **13.6%**, substantially exceeded the FY2017 target; two years ahead of schedule
- ◆ Naldemedine: **NDA submissions in Japan and the US** in Mar. 2016



Financial Results (Consolidated)



(Unit: B yen)

	FY2015 forecasts	FY2015 results	achievement (%)	FY2014 results	Y on Y change (%)	Y on Y change
Sales	301.5	310.0	102.8	274.0	13.1	36.0
Operating income	78.0	91.4	117.2	50.4	81.5	41.0
Ordinary income	88.0	100.9	114.6	77.9	29.5	23.0
Profit attributable to owners of parent	59.0	66.7	113.0	44.1	51.4	22.6
ROE	11.9%	13.6%		9.4%		

Exchange rete (average)	FY2015 forecasts	FY2015 results	FY2014 results	Y on Y
USD (\$) – JP (¥)	120	120.15	109.76	+10.39 Yen depreciation
EUR (€) – JP (¥)	130	132.59	138.69	-6.1 Yen appreciation
GBP (£) – JP (¥)	180	181.33	176.68	+4.65 Yen depreciation

Statements of Income (Consolidated)



(Unit: B yen)

	FY2015 forecasts	FY2015 results	achievement (%)	FY2014 results	Y on Y change (%)	change
Prescription drugs	167.0	162.1	97.1	161.4	0.4	0.7
Overseas subsidiaries/export*	30.4	29.7	97.7	28.7	3.6	1.0
Shionogi Inc.	17.4	16.6	95.6	15.9	4.3	0.7
Osphena®	7.4	4.8	65.2	4.6	5.5	0.2
Contract manufacturing*	7.6	8.4	111.2	15.6	(45.9)	(7.2)
OTC and quasi-drugs	4.7	4.9	103.6	4.6	6.7	0.3
Royalty income	88.8	101.8	114.7	60.7	67.8	41.1
Royalty income for the sales of Crestor® and HIV franchise	80.0	88.1	110.1	53.2	65.4	34.9
Crestor®	-	47.6	-	47.4	0.4	0.2
HIV franchise	-	40.5	-	5.8	594.0	34.7
Others	3.0	3.0	100.0	3.1	(2.2)	(0.1)
Total	301.5	310.0	102.8	274.0	13.1	36.0

◆ US business

- Osphena®: Expanded market share and increased sales Y on Y, while not achieving the target

◆ Contract manufacturing

- Reduced due to the modification of Cymbalta® contract

Statements of Income (Consolidated)



(Unit: B yen)

	FY2015 forecasts	FY2015 results	achievement (%)	FY2014 results	Y on Y change(%)	change
Sales	301.5	310.0	102.8	274.0	13.1	36.0
[Royalty* income]	80.0	88.1	110.1	53.2	65.4	34.9
	24.4 [33.2]	24.1 [33.7]		30.0 [37.2]		
Cost of sales	73.5	74.8	101.7	82.2	(9.0)	(7.4)
Gross profit	228.0	235.2	103.2	191.8	22.6	43.4
	49.8	46.4		51.6		
SG&A expenses	150.0	143.8	95.9	141.4	1.7	2.4
Selling & general expenses	101.0	94.0	93.1	92.6	1.6	1.4
R&D expenses	49.0	49.8	101.6	48.9	1.9	0.9
	25.9	29.5		18.4		
Operating income	78.0	91.4	117.2	50.4	81.5	41.0
[Excluding royalty* income]	(2.0)	3.3	-	(2.9)	-	6.2
Non-operating income and expenses	P10.0	P9.5	94.6	P27.5	(65.6)	(18.0)
	29.2	32.5		28.4		
Ordinary income	88.0	100.9	114.6	77.9	29.5	23.0
Extraordinary income and loss	L0.2	L3.4	-	P4.2	-	(7.6)
Income before income taxes	87.9	97.5	110.9	82.1	18.8	15.4
Total income taxes, etc.	28.9	30.8	106.6	38.0	(19.0)	(7.2)
	19.6	21.5		16.1		
Profit attributable to owners of parent	59.0	66.7	113.0	44.1	51.4	22.6

◆ **Cost of sales ratio**
Improved due to the modification of Cymbalta® contract, and up-front and milestone payments from alliance partners

◆ **SG&A expenses**
Decreased due to focusing investment on high-priority programs and continuing careful cost management

◆ **Non-operating income and expenses**
Decreased due to receiving dividends for two years from ViiV in FY2014

◆ **Extraordinary loss**
Increased due to cancellation of co-development with Egalet

Note: Small numbers in red are percent of sales, and numbers in red provided in parentheses are percent of sales excluding royalties
* Royalty income from AstraZeneca and ViiV for the sales of Crestor® and HIV franchise

FY2016 Business Plan

Basic Strategy to Achieve Business Plan



Key actions to complete “Evolution of core business” in SGS2020

Continue achieve bottom-line targets
and
Achieve top-line targets in Japanese/overseas businesses

Positioning for FY2016

Accelerate to strengthen business base and create future growth drivers, in preparation for upcoming patent expirations of strategic products after FY2017

Basic Strategy in FY2016

Continue growth based on increasing royalty income and improved cost management
and
Strengthen and enhance Japanese/overseas business

Financial Forecasts (Consolidated)



(Unit: B yen)

	FY2016 forecasts		FY2015 results	Y on Y	
	full year	1H		change (%)	change
Sales	318.0	145.0	310.0	2.6	8.0
Operating income	91.5	33.0	91.4	0.1	0.1
Ordinary income	101.5	33.0	100.9	0.6	0.6
Profit attributable to owners of parent	71.0	21.0	66.7	6.5	4.3
ROE	13.3%		13.6%		

Exchange rate (average)	FY2016 forecasts	FY2015 results
USD (\$) – JP (¥)	110	120.15
EUR (€) – JP (¥)	130	132.59
GBP (£) – JP (¥)	155	181.33

Statements of Income (Consolidated)



(Unit: B yen)

	FY2016 forecasts		FY2015 results	Y on Y	
	full year	1H		change (%)	change
Prescription drugs	158.2	76.3	162.1	(2.4)	(3.9)
Overseas subsidiaries/export	24.7	12.4	29.7	(16.8)	(5.0)
Shionogi Inc.	12.4	6.0	16.6	(25.5)	(4.2)
Osphena®	5.3	2.6	4.8	10.4	0.5
Contract manufacturing	10.9	5.3	8.4	28.8	2.5
OTC and quasi-drugs	7.0	3.5	4.9	42.9	2.1
Royalty income	114.9	46.3	101.8	12.8	13.1
Royalty income for the sales of Crestor® and HIV franchise	95.0	42.5	88.1	7.8	6.9
Crestor®	33.0	16.5	47.6	(30.7)	(14.6)
HIV franchise	62.0	26.0	40.5	53.1	21.5
Others	2.4	1.2	3.0	(20.8)	(0.6)
Total	318.0	145.0	310.0	2.6	8.0

Statement of Income (Consolidated)



(Unit: B yen)

	FY2016 forecasts		FY2015	Y on Y	
	full year	1H	results	change (%)	change
Sales	318.0	145.0	310.0	2.6	8.0
[Royalty income]	95.0	42.5	88.1	7.9	6.9
	24.5 [35.0]	26.6 [37.6]	24.1 [33.7]		
Cost of sales	78.0	38.5	74.8	4.3	3.2
Gross profit	240.0	106.5	235.2	2.0	4.8
	46.7	50.7	46.4		
SG&A expenses	148.5	73.5	143.8	3.3	4.7
Selling & general expenses	98.5	49.0	94.0	4.8	4.5
R&D expenses	50.0	24.5	49.8	0.4	0.2
	28.8	22.8	29.5		
Operating income [Excluding royalty income]	91.5 (3.5)	33.0 (9.5)	91.4 3.3	0.1 -	0.1 (6.8)
Non-operating income and expenses	P10.0	-	P9.5	5.7	0.5
	31.9	22.8	32.5		
Ordinary income	101.5	33.0	100.9	0.6	0.6

◆ **Cost of sales ratio**
Increase:

- NHI price revisions
- Changes of product lineup

◆ **SG&A expenses**
Increase:

- Preparing for the launch of new products

◆ **Others**

- Increased personnel expenses; retirement benefit

Note: Small numbers in red are percent of sales, and numbers in red provided in parentheses are percent of sales excluding royalties

Basic Policy for Income Allocation



- ◆ Annual cash dividends of **62 yen** per share in FY2015 (revised on Apr. 25, 2016)
- ◆ Annual cash dividends of **68 yen** per share in FY2016 (half-year: 34 yen, year-end: 34 yen)

	FY2014 results	FY2015			FY2016
		original	2015/10/29 Revised	forecasts (revised on Apr. 25)	forecasts
Profit attributable to owners of parent	44.1 B yen	66.7 B yen			71.0 B yen
Dividend per share	52.00 yen	56.00 yen	⇒ 60.00 yen	⇒ 62.00 yen	68.00 yen
Payout ratio	39.2%	-	29.3%	⇒ 30.3%	31.2%
DOE	3.7%	-	4.0%	⇒ 4.1%	4.1%
ROE	9.4%	13.6%			13.3%

- ◆ Maximize enterprise value by balancing three key factors; return to shareholders, investment for future growth and strategic opportunities
- ◆ Sharing our mid- to long-term profit growth with our shareholders by increasing returns as appropriate

SGS2020 Rolling Plan (Targets for FY2018)

Target two growth; top-line growth and bottom-line growth

FY2015

FY2016

FY2017

FY2018

FY2019

FY2020

Growth led by FIC and LIC compounds

Clear priorities and focused resourcing

**Evolution of
Core Business**

Shift Gears for Growth

Ordinary income and ROE targets are projected to be reached two years ahead of schedule

【FY2015 results】

Net sales 310.0 B yen

Ordinary income 100.9 B yen

ROE 13.6%

【FY2018 targets】

Net sales 400.0 B yen

Ordinary income 125.0 B yen

ROE 15%

【FY2020 targets】

Net sales 500.0 B yen

Ordinary income 125.0 B yen

ROE 15%

SGS2020 Vision: Grow as a drug discovery-based pharmaceutical company

Action Plan to Achieve FY2018 Targets



Quantitative targets

Net sales **400.0 B yen**
Ordinary income **125.0 B yen** ROE **15%**

Actions

- ◆ **Top-line Growth**
 - Maximize the value of strategic products
 - Approve and launch compounds in infectious diseases and pain/CNS areas
 - Strategic investment to accelerate growth
- ◆ **Bottom-line Growth**
 - Japanese business: clear priorities and focused resourcing
 - Overseas business: achieve profit targets
 - Move from cost control to intelligent cost management
 - Continue high profit level while considering strategic investments with strong potential to add shareholder value

SGS2020

Review FY2020 target based the achievement of profit targets ahead of schedule

Appendix

Financial Position/Cash Flow (Consolidated)



◆ Financial Position

	3/31/2016	3/31/2015	change
Total assets	639.6	602.9	36.7
Current assets	315.6	259.9	55.7
Non-current assets	324.0	343.0	(18.9)
Total liabilities	125.8	124.0	1.7
Current liabilities	72.0	67.8	4.2
Non-current liabilities	53.8	56.2	(2.4)
Net assets	513.9	478.9	35.0
Equity ratio	79.6%	78.7%	0.9%

◆ Cash Flow

	FY2015 results	FY2014 results	change
Cash and cash equivalents at beginning of period	78.7	108.3	
Operating activities	102.3	45.6	56.7
Investing activities	(32.9)	(31.7)	(1.2)
Financing activities	(18.5)	(46.2)	27.7
Effect of exchange rate change	(1.8)	2.7	(4.5)
Cash and cash equivalents at end of period	127.7	78.7	49.0

◆ Assets

(Unit: B yen)

➤ Current assets

- Cash and deposit +29.4
- Investment securities (surplus fund management): +38.5

➤ Non-current assets

- Impairment loss on intangible assets (sales rights) due to termination of Egalet collaboration, etc. (2.8)
- Investment securities; drop in market value, sales (11.9)

◆ Liabilities/Net assets

- Retained earnings +48.4; net income +66.7, cash dividends paid (18.2)
- Foreign currency translation adjustment (11.2)

◆ Operating activities

- Profit with cash +35.7
- Decreased working capital +11.1
- Dividends income received +5.0
- Decreased income taxes +4.8

◆ Financing activities

- FY2014: Share buyback (30.0)

Japan: Sales of Strategic Products



(Unit: B yen)

	FY2015 forecasts	FY2015 results	achievement (%)	FY2014 results	Y on Y change (%)	Y on Y change
Crestor®	44.4	43.7	98.5	43.6	0.3	0.1
Irbetan® franchise	17.0	15.7	92.2	15.1	3.7	0.6
Cymbalta®*	17.4	15.2	87.4	10.9	39.0	4.3
Total of 3 key products	78.8	74.6	94.7	69.7	7.1	4.9
OxyContin® franchise	10.7	10.0	93.7	10.3	(2.3)	(0.3)
Finibax®	3.8	3.8	99.7	4.0	(4.8)	(0.2)
Differin®	3.8	3.0	77.7	3.9	(23.8)	(0.9)
Pirespa®	5.4	6.0	111.2	5.4	11.9	0.6
Rapiacta®	2.8	2.0	72.4	2.6	(23.4)	(0.6)
Total of 8 strategic products	105.3	99.4	94.4	95.8	3.8	3.6
[percent of sales]	[63.1]	[61.3]		[59.3]		
Prescription drugs	167.0	162.1	97.1	161.4	0.4	0.7

- ◆ Increased sales of the strategic products
- ◆ Cymbalta®: Approved for pain associated with fibromyalgia and pain associated with chronic low back pain
- ◆ Differin®: Launch of a new competitor
- ◆ Rapiacta®: Slow flu season

Japan: Forecasted Sales of Strategic Products



(Unit: B yen)

	FY2016 forecasts		FY2015 results	Y on Y	
	full year	1H		change (%)	change
Crestor [®]	41.5	20.9	43.7	(5.0)	(2.2)
Irbetan [®] franchise	15.1	7.4	15.7	(3.9)	(0.6)
Cymbalta [®] *	19.3	8.9	15.2	27.1	4.1
Total of 3 key products	75.9	37.2	74.6	1.7	1.3
OxyContin [®] franchise	10.5	5.5	10.0	4.7	0.5
Finibax [®]	3.9	2.0	3.8	4.2	0.1
Pirespa [®]	6.3	3.3	6.0	5.0	0.3
Rapiacta [®]	2.3	0.1	2.0	13.0	0.3
Total of 7 strategic products*	99.0	48.1	96.5	2.6	2.5
[percent of sales]	[62.5]	[63.0]	[59.5]		
Prescription drugs	158.2	76.3	162.1	(2.4)	(3.9)

Pipeline (as of May 2016)



Non-clinical	Phase I	Phase II	Phase III	NDA submission
<div>Antibody drug candidate against Pseudomonas</div> <div>Central neuropathic pain</div> <div>NTE Inhalation</div>	<div>S-120083 Inflammatory pain</div> <div>S-033188 Influenza virus Infection</div> <div>S-117957 Insomnia</div>	<div>S-649266 Multidrug-resistant Gram-negative bacterial infections</div> <div>S-707106 Type2 diabetes</div> <div>S-222611 Malignant tumor</div> <div>S-488210 Head and neck squamous cell carcinoma</div> <div>S-588410 Bladder cancer</div>	<div>【Global】</div> <div>S-649266 Multidrug-resistant Gram-negative bacterial infections</div> <div>Osphena® Vaginal dryness associated with postmenopausal VVA</div> <div>Lusutrombopag Thrombocytopenia</div>	<div>Naldemedine Opioid-induced constipation</div>
	<div>Oxycodone Tamper resistant formulation</div> <div>S-120083 Inflammatory pain</div> <div>S-010887 Neuropathic pain</div>	<div>S-649266 Multidrug-resistant Gram-negative bacterial infections</div> <div>S-033188 Influenza virus Infection</div> <div>S-525606 Allergic rhinitis caused by Japanese cedar allergen</div>	<div>【In Japan】</div> <div>S-649266 Multidrug-resistant Gram-negative bacterial infections</div>	<div>Naldemedine Opioid-induced constipation</div> <div>Cymbalta® Pain associated with osteoarthritis</div> <div>Guanfacine hydrochloride ADHD (pediatric)</div>
			<div>Lisdexamfetamine ADHD (pediatric)</div>	
			<div>Guanfacine hydrochloride ADHD (adult)</div>	
			<div>Actair® Pediatric patients with perennial allergic rhinitis</div>	
			<div>Oxycodone Moderate to severe chronic pain</div>	
		<div>S-237648 Obesity</div> <div>S-588410 Bladder cancer</div>	<div>S-555739 Allergic rhinitis</div>	<div>Guanfacine hydrochloride ADHD (pediatric)</div>
			<div>S-588410 Esophageal cancer</div>	

Pipeline (as of May 2016)



Non-clinical	Phase I	Phase II	Phase III	NDA submission
【Out-licensed】 <div>GSK3342830 Multidrug-resistant Gram-negative bacterial infections</div> <div>Janssen/Shionogi Project compound Alzheimer's disease</div>		<div>Cabotegravir + rilpivirine LAP Treatment for HIV infection</div> <div>Cabotegravir LAP Prevention for HIV infection</div>	<div>Dolutegravir + rilpivirine Treatment for HIV infection</div> <div>Janssen/Shionogi BACE inhibitor Alzheimer's disease</div>	

Forward-Looking Statements



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